GREAT WEST STEEL INDUSTRIES LTD. ANNUAL REPORT FOR THE YEAR 1976

Great West Steel Industries Ltd. is a Canadian owned manufacturing, engineering and crane rental company providing goods and services primarily to the construction industries of Western Canada and the U.S.A. Pacific Northwest.

The Company's manufacturing plants at New Westminster, Calgary and Saskatoon (and an affiliate plant at Edmonton) engineer, manufacture and install open web steel joists, structural steel and other steel work for the construction industry. The Company's Calgary plant also manufactures air fin heat exchangers while the Edmonton plant specializes in production of heavy machinery. A plant at North Vancouver produces extruded hollow core concrete wall and floor slabs.

The Company's crane service division owns a large fleet of mobile cranes operating from bases at Edmonton, Calgary, Vancouver and Saskatoon.

The Company's U.K. based engineering affiliate operates on a worldwide basis and is an acknowledged leader in the design and construction of coal preparation plants, materials handling and bulk sampling systems.

Main Products and Services

DESIGNERS, ENGINEERS AND MANUFACTURERS

Bucketwheel Excavators, Stackers, Reclaimers
Bulk Materials Sampling Equipment
Coal Engineering and Testing
Coal Preparation Plants
Crane Service and Pile Driving
Dycore Extruded Prestressed Wall and Floor Slabs
Heat Exchangers
Materials Handling Systems
Mining and Minerals Processing Equipment
Plant Maintenance Service
Steel Joists
Steel Plate Work
Structural Steel
Vibratory Equipment and Conveyors

In thousands of dollars except as indicated	1976	1975
Net Working Capital†	6,202	10,167
Net Fixed Assets	7,167	12,997
Other Assets	1,192	3,386
Total Net Assets	14,561	26,550
Represented by:		
Funded Debt	10,715	10,643
Deferred Income Taxes	681	4,142
Shareholders' Equity	3,165	11,765
	14,561	26,550
Capital Expenditures on Fixed Assets	2,370	2,432
Total Payroll and Benefits*	44,502	36,300
Number of Employees at Year End*	2,053	2,398
Sales	76,928	78,562
Earnings (Loss) from Continuing Operations††	(132)	2,335
Earnings (Loss) from Discontinued Operations††	(8,500)	(965)
Net Earnings (Loss):		
Before Extraordinary Item	(8,632)	1,370
After Extraordinary Item	(8,516)	2,191
Net Earnings (Loss) as % of Sales:		
Before Extraordinary Item	(11.2)%	1.7%
After Extraordinary Item	(11.1)%	2.8%
Net Earnings (Loss) per Share:**		
Before Extraordinary Item	$(4.53)	$ .76
After Extraordinary Item	$(4.47)	$1.22
Cash Flow per share:**†		
Before Extraordinary Item	$(5.11)	$1.44
After Extraordinary Item	$(5.05)	$1.55

†Including current portion of Deferred Income Taxes
††After applicable Income Taxes
**Including Joint Venture Employees*
***Based on average Common Shares outstanding during 1976 of 1,902,495 (1975–1,802,495)*

1965—*Edmonton* operations commenced to design, fabricate and erect steel joists and structural steel.

1966—*Calgary* plant acquired to produce fabricated structural steel and air fin heat exchangers.

1966—*Saskatoon* plant established to manufacture steel joists and fabricate structural steel.

1969—*New Westminster* plant opened to produce steel joists and fabricate structural steel.

1970—*Great West Steel Industries Ltd.* became a public company.

1971—*Atlas Construction & Crane Service* acquired, an operation which is complementary to the erection of steel joists and structural steel.

1971—*Calgary coal wash pilot plant,* now known as Birtley Engineering (Canada) Ltd., established along with laboratories and coal testing facilities.

1971—*Birtley Engineering Ltd.,* U.K. was purchased with facilities in Chesterfield, England and Glasgow, Scotland.

1971—*Toronto* steel joist manufacturing facilities were purchased from Anthes Steel Products Ltd.

1972—*Seattle* sales and engineering office was opened.

1972—*Wallclad Products Ltd.* was acquired to produce and install steel faced sandwich wall panels.

1972—*International Brick & Tile* was purchased with the intent to produce ceramic bricks and tile from fly ash.

1972—*Taskmaster Division* was started to develop computerized engineering data consisting primarily of software programming.

1972—*Birtley Engineering Corporation* opened offices in Salt Lake City as consulting engineers in resource process design.

1973—*Great West Steel Industries Inc.* was established in Fontana, California to produce and market steel joists and fabricate structural steel.

1973—*Pine Pass Development Ltd.* became involved in a coal exploration program under an agreement with Pan Ocean Oil Ltd.

1973—*Bimac Engineering & Chemicals Limited,* U.K. was formed to produce and market consumable foundry products for the steel industry.

1973—*Bimac Division* was established in Detroit, Michigan.

1974—*Dycore Division* of Wallclad was started in North Vancouver for the production of hollow core concrete slabs for the construction industry.

1975—*Bates Agencies Ltd.* and *Super Crane & Rigging Ltd.* were acquired to provide crane rental services in B.C.

1975—*Swedapal Division* was formed in U.K. to produce innovative steel-wood pallets.

1975—*Cadcoal Division* was started in the U.K. to develop computerized engineering systems for coal preparation design.

1975—Fifty percent of *Associated Engineering Services Ltd.,* a major consulting engineering company in Western Canada, was acquired.

1975—*GWS Krupp Industries Ltd.* was formed in Edmonton to acquire from Great West Steel its Edmonton plant and subsequently greatly expanded it. Great West Steel owns fifty percent of this major steel fabricating operation.

1975—Great West Steel acquired fifty percent of *GWS and Shell Ltd.,* which in turn acquired Birtley Engineering Ltd. (U.K.) from Great West Steel.

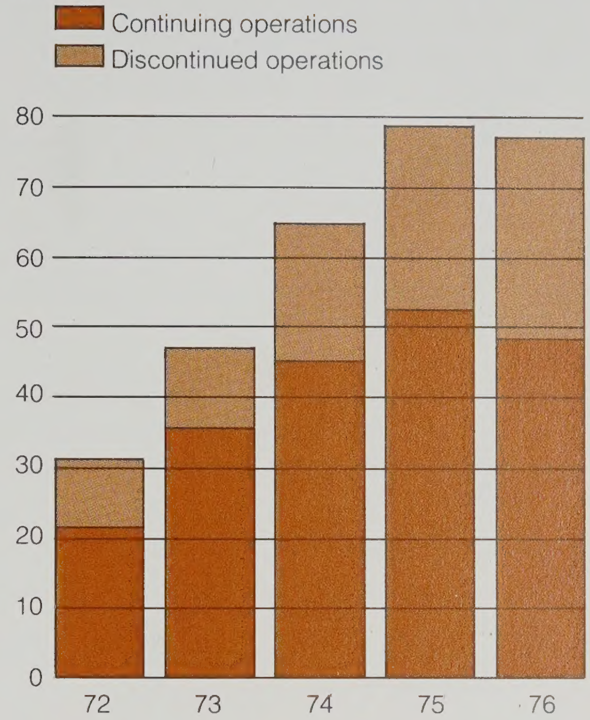
1975—Great West Steel entered a joint venture with Rashid Construction in the *United Arab Emirates* to carry out construction activities in the Middle East.

The chronicle of the Company's progress since its inception is complex and sobering. The Company commenced operations in 1965 and by 1971 had become an integrated Canadian fabricated steel supplier with a sound proprietary product line (joists), structural steel fabrication and erection capabilities.

The achievements of these early years led to a philosophy of aggressive expansion into many fields. Buoyed by its successes and a surging economy, the Company expanded its corporate involvement into a variety of industries and service companies in Canada, the U.S.A., the United Kingdom and the Middle East. Management assumed that the new operations would be capable of servicing the resultant increased debt load.

Immediately following major senior management changes in May 1976, a review of the Company's financial capabilities was undertaken. This review revealed a troubled Company requiring major changes in philosophy and daily management to ensure survival. The accounting policies used in preparing and presenting the financial reports were re-assessed to clearly identify the position of the Company. The management and the newly appointed Board of Directors determined that a more conservative and informative accounting policy was essential. Accordingly, all start-up costs and research and development costs totalling $1,374,000 previously recorded as deferred costs were written off and such further costs are now expensed as incurred. Furthermore, overheads carried in work-in-progress pertaining to off-shore work of $153,000 were written off.

SALES



The next priority was to assess the viability of the existing Company. Major factors affecting the Company at that time were:

A sagging economy. The steel operations, historically profitable, slumped as a result of low activity in the Company's sector of the construction industry. The Company thus lost its ability to provide excess cash to bolster other corporate losses.

Failure to produce profits from areas of diversification. Significant and accelerating expenditures in these areas dictated immediate action to stem the losses and curtail cash drains.

Relatively high levels of activity in joint ventures. The restricting factor of investment in joint ventures is that the profits generated are not necessarily available in the form of cash. For Great

West Steel this meant that the debt incurred to purchase the investment could not be serviced out of the cash flow from the investment. Thus, an immediate review was essential to bring the involvement in joint ventures into balance with the size of the company as a whole.

It was obvious that a complete redirection of the Company was essential. Historically unprofitable operations were terminated. The losses incurred by this group in recent years amounted to more than $15 million. In 1976 alone, operating losses including disposal provisions and asset write-downs exceeded $12 million.

At first glance, the debt load of the restructured company appears formidable. However, the program to dispose of redundant assets is well under way and will reduce the debt by approximately $10 million. The actions taken have reduced the scale of the Company somewhat but have re-established the Company's financial stability.

Continuing operations have forecasted sales in 1977 of $50 million. The steel fabricating plants in Saskatoon, Calgary and New Westminster have a record of sound performance over many years. Atlas Crane Rentals and Super Crane & Rigging provide one of the largest and most capable services of its kind in Western Canada.

The Company's engineering and fabricating ability is complimented by its active participation in its affiliates GWS Krupp Industries and GWS & Shell. GWS Krupp owns and operates one of Canada's finest heavy machinery and structural steel shops.

The Company has not as yet felt the full benefits of many of the moves already made and the present state of the Canadian economy has slowed the Company's rate of recovery.

The experiences of the Company's employees have been traumatic but rewarding. The Directors and Management are appreciative of the great effort and diligence of all employees during this period of reorganization. Great West Steel is now a well conceived company with skilled and experienced people.

Most of the problems are now behind us and with a little help from the economy we expect that 1977 will be a more positive and rewarding year.

On behalf of the Board of Directors,

HUGH A. MAGEE
Chairman and President

Vancouver, B.C.
May 10, 1977

May Hugh A. Magee was elected President replacing Kenneth G. Heffel, and major changes in the Board of Directors were instituted by replacing employee directors with senior executives from outside the Company.

June ***Fontana, California*** steel fabricating and joist plant was closed. This operation was ill conceived from the start, with no existing joist market of consequence in California and the chosen location of the plant resulting in the highest labour costs in the State. Unamortized start-up costs previously reported as deferred costs were written off in 1976. The operating losses and costs of closure amounted to $1,900,000 in 1976.

June ***Taskmaster Division*** was sold. This conceptual programme showed insufficient promise of significant returns on the investment. With costs of the program skyrocketing, Great West Steel had to withdraw support. Costs incurred in previous years had been reported as assets amounting to $946,000 and were written off in 1976 together with further costs emanating from prior commitments of $604,000.

June ***Wallclad*** metal panel fabricating plant was dismantled and the plant and equipment sold.

September ***Rashid Construction –G.W.S., Abu Dhabi Hotel***—Great West Steel withdrew active participation. This complex joint venture had proven to be extremely costly and risky, hence, the decision to re-evaluate the Company's role in the Middle East.

October ***Toronto*** steel operations were closed. This plant had a poor long-term earnings record, including the period under the previous owners. The magnitude of the losses was increasing monthly. The resultant extremely costly closure was inevitable and contributed $5,300,000 to 1976 losses.

October ***Bimac Chemicals*** was a small operation which had cumulative losses of $775,000. The assets of Bimac were sold.

October ***Swedapal Division*** in the United Kingdom was originally established to manufacture and sell steel-wood combination pallets under license from a French manufacturer. Its inability to handle marketing independently resulted in the decision to sell the operation to Birtley Engineering, UK.

October ***International Brick & Tile*** was originally purchased in 1972 to produce ceramic bricks and tiles from fly ash. The process proved to be impractical and the decision was made in 1975 to re-equip the plant to produce other ceramic products. This market did not develop as anticipated and resulted in significant operating losses and write-offs. A review is underway.

December The investment in ***Associated Engineering Services Ltd.*** was reconsidered and the decision to sell the Company's fifty percent interest in the shares was made. Although AESL is a sound company with satisfactory earnings, this investment did not provide sufficient cash flow to justify continuing participation. This disposal also serves to reduce the activity of Great West Steel in joint venture type operations.

Consolidated Statement of Earnings and Retained Earnings

For the year ended December 31, 1976

	1976 $	1975 $
SALES	76,927,874	78,561,865
CONTINUING OPERATIONS		
(Loss) Earnings from operations	(122,217)	4,248,223
Related income taxes	(9,328)	(1,913,403)
NET (LOSS) EARNINGS FROM CONTINUING OPERATIONS	(131,545)	2,334,820
DISCONTINUED OPERATIONS *(Note 1)*		
Loss from operations including disposal provisions	(9,928,923)	(1,430,498)
Write-down of assets to estimated realizable values	(2,156,500)	
Related income taxes recovered	3,585,508	465,689
NET (LOSS) FROM DISCONTINUED OPERATIONS	(8,499,915)	(964,809)
NET (LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	(8,631,460)	1,370,011
EXTRAORDINARY ITEMS *(Note 10)*	115,993	821,586
NET (LOSS) EARNINGS FOR THE YEAR	(8,515,467)	2,191,597
RETAINED EARNINGS — BEGINNING OF YEAR		
As previously reported	7,222,594	4,935,651
Prior period adjustment *(Note 11)*	984,244	837,597
As restated	6,238,350	4,098,054
Tax paid on 1971 undistributed income	84,326	
Share issue expenses net of income taxes		51,301
	6,154,024	4,046,753
(DEFICIT) RETAINED EARNINGS — END OF YEAR	(2,361,443)	6,238,350

STATUTORY INFORMATION:		
Depreciation and amortization	1,202,869	957,718
Interest on long term debt	1,290,874	1,135,936
Other interest	1,680,901	1,045,807
	4,174,644	3,139,461

Consolidated Balance Sheet

as at December 31, 1976

Assets	1976 $	1975 $
CURRENT		
Cash	247,403	
Accounts Receivable	10,300,057	16,818,330
Inventories *(Note 3)*	7,175,882	14,104,667
Prepaid Expenses	327,029	284,315
Assets of discontinued operations held for realization *(Note 1)*	14,777,359	
	32,827,730	31,207,312
EXPLORATION AND TESTING COSTS ON COAL PROPERTIES *(Note 4)*	776,768	688,798
FIXED ASSETS *(Note 5)*	7,166,869	12,997,192
DEFERRED FINANCING EXPENSES less amortization	325,145	374,626
OTHER ASSETS	89,794	439,372
EXCESS OF COST OF 50% OWNED AFFILIATE over book value at the date of acquisition less amortization *(Note 1)*		1,883,595
	41,186,306	47,590,895
Liabilities		
CURRENT		
Bank Advances *(Note 6)*	14,707,482	8,108,980
Accounts Payable and Accruals	11,517,187	10,162,440
Income Taxes	219,948	1,561,165
Current Portion of Long Term Debt *(Note 8)*	181,009	1,207,571
Deferred Income Taxes *(Note 7)*	397,500	2,713,462
	27,023,126	23,753,618
LONG TERM DEBT *(Note 8)*	10,714,927	10,643,979
DEFERRED INCOME TAXES *(Note 7)*	283,712	1,428,964
	38,021,765	35,826,561
Shareholders' Equity		
CAPITAL STOCK *(Note 9)*	5,525,984	5,525,984
(DEFICIT) RETAINED EARNINGS	(2,361,443)	6,238,350
	3,164,541	11,764,334
	41,186,306	47,590,895

Signed on behalf of the Board

Director

Director M. Schweitzer

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1976

	1976 $	1975 $
SOURCE OF WORKING CAPITAL		
Continuing Operations	82,995	3,019,170
Extraordinary Items	115,993	211,979
Reclassification of Assets of Discontinued Operations	6,602,982	
Sale of Fixed Assets	1,062,767	2,337,306
Sale of Other Assets	276,362	
Long Term Debt	706,000	4,240,000
Share Capital, net of issue expenses		1,410,000
Sale of Birtley Engineering Ltd., net		288,538
	8,847,099	11,506,993
USE OF WORKING CAPITAL		
Discontinued Operations	7,516,494	986,758
Exploration and Testing Costs on Coal Properties	87,970	377,882
Fixed Asset Additions	2,370,037	2,432,010
Other Asset Additions	133,076	364,912
Long Term Debt Retired	304,286	2,476,040
Tax paid on 1971 Undistributed Income	84,326	
Acquisitions of Subsidiaries & 50% owned Affilities, net		4,078,330
	10,496,189	10,715,932
(DECREASE) INCREASE IN WORKING CAPITAL	(1,649,090)	791,061
WORKING CAPITAL — BEGINNING OF YEAR	7,453,694	6,662,633
WORKING CAPITAL — END OF YEAR	5,804,604	7,453,694

1. Discontinued Operations

During the year the Company decided to discontinue or dispose of certain of its operations that were either historically unprofitable, inconsistent with future plans, or a part of a programme of reduction of involvement in joint ventures.

Certain of these operations have already been closed or sold and the Company is actively pursuing realization of others under a programme of divestiture which is anticipated to be substantially complete during 1977. Sales from these operations amounted to $28,652,994 and $25,490,423 for 1976 and 1975 respectively. Assets of discontinued operations held for realization are shown separately on the Balance Sheet at estimated net realizable values and consist of the following:

	Book Value $	Net Adjustments $	Estimated Realizable Value $
Accounts receivable	7,193,729	751,000	6,442,729
Inventories	1,288,476	430,000	858,476
Investment in 50% Owned Affiliate, including excess of cost over book value	3,362,000	362,000	3,000,000
Fixed and Other	5,089,654	613,500	4,476,154
	16,933,859	2,156,500	14,777,359

Full provision for losses has been made for operations already sold or discontinued. Further provisions totalling $2,137,000 have been made for estimated expenses and losses during the realization period.

2. Significant Accounting Policies and Principles

a) The consolidated financial statements include the accounts of all subsidiaries. The principal subsidiaries, all of which are wholly-owned are:

Birtley Engineering (Canada) Ltd.
Birtley Engineering Corporation
Great West Steel Industries Inc.
Great West Industries (Alta.) 1976 Ltd.
Great West Steel Industries (Sask.) Ltd.
Pine Pass Development Ltd.
Super Crane & Rigging Ltd.
Wallclad Products Ltd.
Wallclad Manufacturing Co. Ltd.

The consolidated financial statements also include the Company's proportionate share of the assets and liabilities and results of operations of its 50% owned affiliates:

GWS Krupp Industries Ltd.
GWS and Shell Limited

The Company's investment in Associated Engineering Services Limited (AESL) is included in assets of discontinued operations held for realization and the Company's proportionate share of their earnings for the year reflected in discontinued operations.

b) Translation of Foreign Currencies

Foreign currencies have been translated into Canadian currency at the rate of exchange in effect on December 31, 1976, except that fixed assets have been translated at the rate in effect at the date of acquisition and earnings at the average rate during the year.

c) Recording of Income

Profits on contracts are recorded on the basis of estimates of percentage of completion on individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy.

If contracts extend over one or more fiscal years, revisions in costs and profit estimates during the course of the work are reflected in the accounting period when the facts which require the revisions become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

d) Inventory Valuation

Raw materials and supplies are recorded at the lower of cost and net realizable value. Work-in-progress represents costs and estimated earnings in excess of billings.

e) Depreciation

Depreciation is calculated at rates which will reduce the original cost of fixed assets to estimated residual values over the useful life of each asset on a straight-line basis at the following rates:

Buildings	2% to 7%
Equipment	5% to 20%

Unrealized gains on sales of assets to fifty percent owned affiliates are being amortized over the life of these assets.

f) Deferred Costs

Research and development, pre-production and start-up costs of major new activities are written off in the period in which they are incurred. This policy represents a change from prior years wherein costs were recorded as deferred costs and amortized over the lesser of five years from commencement of commercial production or utilization or the estimated useful life of the activity.

g) Deferred Financing Expenses

Expenses of obtaining long term financing and conditional sales contracts are deferred and amortized over the term of the financing.

h) Comparative Figures

Where applicable, comparative figures have been restated to conform with the presentation used in the current year.

3. Inventories

	1976	1975
	$	$
Raw Materials and Supplies	4,226,157	8,701,496
Work-in-Progress	2,949,725	5,403,171
	7,175,882	14,104,667

4. Exploration and Testing Costs on Coal Properties

The Company has an option to earn a 60% interest in coal licenses in Western Canada under a farm-out agreement with Pan Ocean Oil Limited. The amount recorded represents exploration and testing costs to date. The annual exploration commitment is $100,000 until 1982 or commencement of commercial production, whichever occurs first.

5. Fixed Assets

	1976			1975
	Cost $	Accumulated Depreciation $	Net Book Value $	Net Book Value $
Buildings	2,436,452	329,788	2,106,664	4,770,354
Equipment	7,225,423	2,538,239	4,687,184	7,585,625
	9,661,875	2,868,027	6,793,848	12,355,979
Land	373,021		373,021	641,213
	10,034,896	2,868,027	7,166,869	12,997,192

6. Bank Indebtedness

Advances, Banker's Acceptances and term loans are secured by accounts receivable, inventories, floating charges, chattel mortgages on certain equipment and mortgage debentures on real property.

7. Deferred Income Taxes and Tax Losses Carried Forward

Deferred income taxes show separately the amounts arising principally from:

	1976 $	1975 $
Holdbacks receivable and other current timing differences	397,500	2,713,462
Capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts	283,712	1,428,964
	681,212	4,142,426

The Companies' available tax losses, for which no recognition has been given to the potential tax savings, are $7,358,000 expiring at varying dates up to 1981.

8. Long Term Debt

	1976 $	1975 $
1972 Series 8½% Sinking Fund Debentures, due June 15, 1992	5,600,000	5,700,000
Term Bank Loans, 1½% to 2% above prime bank rate repayable by 1982 (Note 6)	4,765,000	4,825,000
Other term loans with interest at varying rates, secured by specific assets repayable in varying annual installments by 1985	530,936	1,156,550
Unsecured Advances		170,000
	10,895,936	11,851,550
Less: Current Portion	181,009	1,207,571
	10,714,927	10,643,979

At the Company's option, redemption for other than sinking fund purposes of any part of the debentures may take place at a premium of 6½% in 1977 decreasing by ½% per year to 1990.

Sinking fund payments for the year amounted to $100,000.

Payments required in the next five years to meet long term debt installments including sinking fund payments, excluding term bank loans for which there are no specific repayment plans, are:

	$
1977	181,009
1978	300,942
1979	259,797
1980	234,097
1981	205,262
	1,181,107

9. Capital Stock and Dividends

Authorized — 5,000,000 common shares without nominal or par value

	1976 $	1975 $
Issued and fully paid — 1,902,495 shares	5,525,984	5,525,984

At December 31, 1976, there were outstanding 315,000 common share purchase warrants entitling the holders to purchase common shares at a price of $8.31 per share ($8.39 after termination of the option referred to below) on or before June 15, 1977 and thereafter at a price of $9.52 per share ($9.74 after termination of the option referred to below) on or before June 15, 1982.

In addition, there was an outstanding option granted to shareholders of AESL to convert the remaining 100,000 issued shares of AESL into shares of the Company on the basis of two shares of the Company for each AESL share. This option terminated May 12, 1977. (Note 16 (b))

The 1972 Series 8½% sinking fund debentures trust indenture restricts the Company from declaring common stock dividends under certain conditions.

10. Extraordinary Items

	1976 $	1975 $
Reduction of income taxes on application of prior period losses	70,932	162,330
Bonus earnings from 50% owned affiliate net of taxes	45,061	
Gain on sale of Edmonton Plant, net of taxes		624,920
Gain on sale of Birtley Engineering Limited, net of taxes		34,336
	115,993	821,586

11. Prior Period Adjustment

Prior period adjustments comprise the following:

	1976 $	1975 $
Deferred costs written off (Note 2 (f))	1,373,854	1,017,664
Related income taxes	389,610	180,067
	984,244	837,597

Due to the accounting policy change as described in Note 2 (f), previously deferred costs of $1,373,854 have been written off against retained earnings. This policy change has been retroactively reflected in the 1975 and prior years' figures.

This change in policy has resulted in an increase in the 1976 loss of $604,000 ($.32 per share) and the restatement has resulted in a decrease in 1975 earnings of $147,000 ($.08 per share).

12. (Loss) Earnings Per Share

	1976 $	1975 $
Basic — Net (loss) earnings before extraordinary items:		
Continuing operations	(.07)	1.30
Discontinued operations	(4.46)	(.54)
	(4.53)	.76
— Extraordinary items	.06	.46
— Net (loss) earnings for the year	(4.47)	1.22
Fully diluted — Net (loss) before extraordinary items:		
Continuing operations	.01	
Discontinued operations	(3.83)	
	(3.82)	
— Extraordinary items	.05	
— Net (loss) for the year	(3.77)	

Fully diluted (loss) earnings per share are based on:

— the exercise of 315,000 share purchase warrants (referred to in note 9) assuming the proceeds of the warrants would yield income equal to the average interest rate on the long term debt of the Company. Included in this calculation are imputed earnings, net of income taxes of $150,000.

13. Other Information

a) Remuneration of directors and senior officers amounted to $600,037 (1975 — $562,895). Included are salaries and severance allowances of $282,879 to senior executives no longer employed by the Company.

b) Selling, general and administrative expenses for the year amounted to:

	1976 $	1975 $
Continuing Operations	4,696,000	4,852,000
Discontinued Operations	6,044,000	2,878,000
	10,740,000	7,730,000

c) Income tax (provisions) recoveries for the year are:

	1976	1975
	$	$
Continuing Operations		
Current	385,039	(1,457,514)
Deferred	(394,367)	(455,889)
	(9,328)	(1,913,403)
Discontinued Operations		
Current	238,997	(379,617)
Deferred	3,346,511	845,306
	3,585,508	465,689
	3,576,180	(1,447,714)

14. Commitments

The Company has entered into the following commitments:

a) Long term lease agreements requiring annual payments of approximately $773,000 in each of the next five years.

b) Joint and several indemnification guarantees up to $3,510,000 to the Company's bankers in respect of their guarantee of contract performance by a joint venture in which the Company is involved in Abu Dhabi, U.A.E. The Company has a related indemnity from its joint venture partner in the amount of $2,632,000.

15. Anti-Inflation Legislation

The Company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations. Management believes the Company has complied with this legislation in all material respects.

16. Subsequent Events

a) In March 1977, an action claiming damages of $3,000,000 was commenced against four defendants, including the Company, for the repair and reconstruction of a building following a construction collapse in January 1977. The Company disputes its liability and no provision has been made in the financial statements.

b) Effective April 15, 1977, the Company sold its 50% interest in Associated Engineering Services Ltd. at its estimated realizable value (Note 1).

TO THE SHAREHOLDERS OF GREAT WEST STEEL INDUSTRIES LTD.

We have examined the consolidated balance sheet of Great West Steel Industries Ltd. as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one of the 50% owned affiliates.

As further explained in Note 1 to the consolidated financial statements, the Company has a programme of divestiture of certain of its divisions, subsidiaries and affiliates. The assets of discontinued operations are carried in the financial statements at estimated net realizable values and provisions have been made for estimated expenses and losses during the realization period. We have reviewed the procedures followed and documentation prepared by management in determining the estimated net realizable values of these operations and the related provisions, but the ultimate net realizable values and actual expenses and losses cannot yet be determined with certainty since they depend upon future events and other factors which are not presently determinable.

In our opinion, subject to the outcome of the matters discussed above, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for research and development, pre-production and start-up costs of major new activities as referred to in Note 2 (f) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 16, 1977

COOPERS & LYBRAND, *Chartered Accountants*

Except for Notes 1 and 16
which are as of May 16, 1977.

Historical Review

in thousands of dollars except as indicated

	1976	1975	1974	1973	1972
FINANCIAL POSITION AT YEAR END					
Net Working Capital†	6,202	$10,167	$ 8,861	$ 5,934	$ 7,285
Net Fixed Assets	7,167	12,997	11,020	10,891	9,679
Other Assets	1,192	3,386	606	792	593
Funded Debt	10,715	10,643	8,551	9,296	9,122
Deferred Income Taxes	681	4,142	3,811	2,244	1,977
Minority Interest	—	—	—	49	49
Shareholders' Equity	3,165	11,765	8,125	6,028	6,409
CAPITAL EXPENDITURES ON FIXED ASSETS	2,370	2,432	1,041	2,703	3,407
EMPLOYMENT*					
Total Number of Employees	2,053	2,398	1,463	1,431	1,218
Total Payroll and Benefits	44,502	36,300	19,400	16,220	11,169
INCOME AND RELATED DATA					
Sales	76,928	78,562	64,285	46,857	31,341
Earnings (Loss) from Continuing Operations	(122)	4,248	4,581	200	1,023
Earnings (Loss) from Discontinued Operations	(12,086)	(1,431)	—	—	—
Earnings before Income Taxes	(12,208)	2,817	4,581	200	1,023
Income Taxes	(3,576)	1,447	2,281	394	437
Earnings for Year	(8,632)	1,370	2,300	(194)	586
Extraordinary Item	116	821	(203)	(188)	—
Net Earnings	(8,516)	2,191	2,097	(382)	586
Depreciation and Amortization	1,203	959	753	402	361
Interest on Long-Term Debt	1,291	1,136	982	836	618
Other Interest	1,681	1,045	1,162	505	170
Earnings (Loss) as % of Sales					
Continuing Operations	(.1)	3.0	3.6	(.4)	1.9
Discontinued Operations	(11.1)	(1.3)	—	—	—
Before Extraordinary Item	(11.2)	1.7	3.6	(.4)	1.9
After Extraordinary Item	(11.1)	2.8	3.3	(.8)	1.9
Earnings (Loss) per Share**					
Continuing Operations	(7¢)	$1.30	$1.35	(1¢)	34¢
Discontinued Operations	($4.46)	54¢	—	—	—
Before Extraordinary Item	($4.53)	76¢	$1.35	(1¢)	34¢
After Extraordinary Item	($4.47)	$1.22	$1.23	(2¢)	34¢
Cash Flow per Share**†					
Continuing Operations	(64¢)	$1.72	$2.77	40¢	75¢
Discontinued Operations	($4.47)	(28¢)	—	—	—
Before Extraordinary Item	($5.11)	$1.44	$2.77	40¢	75¢
After Extraordinary Item	($5.05)	$1.55	$2.65	30¢	75¢

†Including current portion of Deferred Income Taxes
**Including Joint Venture Employees*
***Based on average Common Shares outstanding during 1976 of 1,902,495 (1975 –1,802,495; 1974 and prior–1,702,495)*

Directors
J. Leslie Bodie, Bermuda
Bryan A. Ellis, Vancouver
Dietrich Fischer, West Germany
A. John Fisher, Toronto
George C. Hambleton, U.K.
David L. Helliwell, Vancouver
Hugh A. Magee, Vancouver
John W. Poole, Vancouver
Mervyn G. Schweitzer, Vancouver

Officers
Hugh A. Magee, *Chairman & President*
Mervyn G. Schweitzer, *Executive Vice-President*
George B. Bogdanow, *Senior Vice-President, Finance*
D. Scott Kennedy, *Vice-President, Marketing*
John L. Shortly, *Group Vice-President*
William E. Allen, *Secretary*

Subsidiaries
Atlas Construction & Crane Service Ltd., Edmonton and Calgary
Bates Agencies Limited, Burnaby
Bimac Engineering and Chemicals Limited, U.K.
Birtley Engineering (Canada) Ltd., Calgary
Birtley Engineering Corporation, Salt Lake City and Lexington
Great West Steel Industries (Alta.) Ltd., Edmonton
Great West Steel Industries (Sask.) Ltd., Saskatoon
Great West Steel Industries Inc., Seattle
Great West Industries (Alta.) 1976 Ltd., Edmonton, Calgary and New Westminster
Multiform Consultants Ltd., Vancouver
Pine Pass Development Ltd., Vancouver
Super Crane & Rigging Ltd., Burnaby
Wallclad Products Ltd., Vancouver
Wallclad Manufacturing Co. Ltd., North Vancouver

Affiliates
Associated Engineering Services Limited, Edmonton, Calgary, Saskatoon and Vancouver
GWS Krupp Industries Ltd., Edmonton
GWS and Shell Limited, U.K.

Executive Offices
1060 - One Bentall Centre, Vancouver, B.C.

Registered Office
7th Floor, 900 West Hastings Street, Vancouver, B.C.

Stock Listings
Toronto, Montreal and Vancouver Stock Exchanges

Bankers
The Toronto-Dominion Bank

Auditors
Coopers & Lybrand, *Chartered Accountants*

Transfer Agents & Registrars
For common shares and share purchase warrants:

The Canada Trust Company, Vancouver, Toronto, Edmonton, Regina, Winnipeg, Montreal

For debentures:

The Royal Trust Company, Vancouver, Edmonton, Toronto, Montreal

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